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Wednesday, July 25, 1917

Business men generally concede the necessity of heavy taxation, and there is therefore little disposition to criticize the government's tax program, the Senate's scheme especially being regarded as very fair, save in one particular. That is the clause under which it is proposed to levy an impost of 15 per cent on profits, 20 per cent being exempted, undistributed sixty days after the close of the fiscal or calendar year. The object of this tax presumably is to compel distribution of profits in the form of dividends, so that revenues from the personal income tax may be enlarged. There are, however, chief of these is that it would tend to induce an unsound financial practice in that corporations would be tempted to greatly reduce what has been aptly described as their "shock absorbers"—that is, they would be under pressure to abandon conservation of profits against contingencies which may have to be met in a future full of uncertainties. One of the main elements making for strength in the industrial structure of the country is to be found in the fact that by adding to the contents of their cash tills and increasing their other resources, instead of adopting over-liberal policies in the matter of dividends, many companies have put themselves in an impregnable financial position. Ample vindication of that course is to be found in a situation which exists right now. The flotation of the Liberty Loan and the certainty of much heavier governmental demands for funds have brought about a condition in the investment market under which corporations find it possible to obtain money only in limited quantities and at very high rates. Were it not for the fact that numerous companies have so conserved their resources that they can view the situation with equanimity, serious embarrassment for many of them might have ensued. Any tax which would tend to destroy such a policy should be condemned, even if it were not defective in other ways.

But this particular measure is unsound in several other respects. The American Institute of Accountants points out its defects clearly in a special report on the subject. In the first place, it says, in many cases all profits earned will not be readily available for distribution, because the amount of working capital required in ordinary industry is expanding, while profits often take the form largely of inventories and accounts receivable, which obviously cannot be paid out. Especially is this true of the war industries which while making large profits are nevertheless frequently short of cash. Moreover, it is extremely difficult to determine profits under existing conditions. On this point the Institute says:

It must always be remembered that statements of profits are at best estimates. In particular many companies will be required to pay heavy excess profit taxes, the amount of which will necessarily be uncertain until their returns have been approved by the Internal Revenue Department. It would be most unwise financial policy to distribute a large percentage of the profits shown by such companies with such a large uncertainty liability outstanding.

Corporations which were financially embarrassed prior to the present period of increased profits are looking to those profits to restore completely their solvency and could not justifiably distribute any large part thereof in dividends.

Other corporations have made financial plans calling for the application of profits now being earned to defray the cost of new construction already contracted for or for the retirement of maturing obligations. Equally important, as the Institute points out, is the fact that distribution of 80 per cent of the net income of all corporations in the form of extra dividends would inevitably lead to extravagance, especially among the smaller stockholders, at a time when rigid, nationwide economy is essential. Besides, it would have the effect of inflating stock prices and might lead to an ecstasy of speculation such as was witnessed a year ago, with a disastrous panic in the end.

A number of bankers who were firmly convinced last May that the Liberty Loan could not be successfully floated on a 3½ per cent basis are now strongly opposed to increasing the rate of interest on the next instalment. It is now generally conceded that the loan can be placed almost as easily on a 3½ as on a 4 per cent basis. Moreover, it is contended that an increase of the rate to 4 per cent would cause disturbance in several directions which should be avoided if possible. For one thing, the investment market would be adversely affected. Securities are now pretty well adjusted to the 3½ per cent basis, and an increase to 4 per cent might cause a shifting of funds from low yield corporate securities to the government bonds, with a consequent

decline in the quoted values of the former. Also, it is argued, a 4 per cent rate would cause a big drain on savings banks. Withdrawals have already been heavy. One big New York savings bank lost 1,400 accounts between July 1 and July 10, in addition to reductions in thousands of others. Not all the money withdrawn went into Liberty bonds. Some of it disappeared from circulation, for there is a tendency to hoard cash. It is fortunate that the dangers which usually attend heavy withdrawals from savings institutions have been averted by action of the Federal Reserve Board, which recently ruled that member banks may rediscount for non-member savings banks.

The Man Who Fights Gives Most

Financial Editor, The Tribune.

Professor Seligman's recent letter in reply to my article shows a commendable desire to avoid lending support to the slackers' theory of war finance. One unfortunate result of his letter, however, will be the unintentional support which it lends to those disingenuous persons who are trying to pretend that the burdens of this war will be distributed with some approximation to equality. He rightly states, as I had already shown, that it is not a question as between rich and poor, but he labors to cover up the fact that it is a question as between those who stay at home and those who go to the front.

It is idle to contend that we who stay at home, whether we be rich or poor, will bear burdens which are comparable with those borne by the young men who go to the trenches, however heavily the government may tax us. Laboring men who stay at home will, most of them, be slightly better off than they would be if we were not at war. Only those individuals who go to the front will bear any appreciable burden. Business men will in many cases, but not all, make larger incomes by reason of the war than they would make if we were at peace. Many an eminently respectable family is still living on the income of a fortune built up during the Civil War while their competitors, or those who would otherwise have been their competitors, were in the army. As to burdens and sacrifices, even those who lose money by reason of the war will not bear one hundredth part of the burden which they will bear who go to the front.

If Professor Seligman, or any one else, were to surrender his entire income save \$15 a month, or the pay of a private soldier, and all his capital besides, and spend all his time selling liberty bonds and soliciting for Red Cross funds, he would be worthy of the highest commendation for his public spirit; but as to his burdens and sacrifices, bah! they would be trivial and unworthy of being mentioned in comparison with those of any conscript who is sent to the trenches.

Therefore, I repeat, the real question, stripped of all disingenuous twaddle, is simply this: Shall we who stay at home pay the money expenses of this war so far as possible, or shall we lend the money to the government and then ask those who go to the front and bear the real burdens of the war help pay the money back to us after they return, if they return?

T. N. CARVER.
Los Angeles, Cal., July 18, 1917.

Spain's Wheat Crop Smaller

Washington, July 25.—Spain's wheat crop this year is forecast at 141,000,000 bushels in a cable message from the International Institute at Rome to the Department of Agriculture. This is 7.4 per cent less than last year's crop. The rye crop is forecast at 27,778,000 bushels, or 3.5 per cent less than last year.

Crop conditions were reported as good in Spain, average in Ireland, Italy and Switzerland and mediocre in Denmark, Great Britain and Sweden. India's cotton crop was estimated at 4,273,000 bales of 400 pounds each, an increase of 14.3 per cent over last year.

India Expected to Produce More Cotton

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Money and Credit

Call money at the Stock Exchange yesterday ruled at 3 per cent, with some loans made as low as 2 per cent. Rates for time loans based on Stock Exchange collateral continued firm, despite the ease of call money. In view of the general uncertainty of their position, banks prefer to remain liquid by putting money out on call and withholding offerings of fixed date funds. Borrowers were bidding 5 per cent for industrial collateral loans yesterday, but loaning institutions were asking 5½ per cent. Loans against a mixture of railway and industrial collateral were quoted unchanged at 4½ to 4¾ per cent.

Ruling rates of money yesterday,

compared with a year ago, were as follows:
Call money..... 3 % 23½ %
Time money (mixed collateral):
60 days..... 4½ % 3¼ %
90 days..... 4½ % 3¼ %
4 months..... 4½ % 3¼ %
6 to 6 mos..... 4½ % 3¼ %

Commercial Paper.—The majority of institutions displayed little interest in the commercial paper market yesterday. A few sales were made at 4½ per cent, but the bulk of the business was done on a 5 per cent basis.

Official rates of discount of each of the twelve Federal districts are as follows:

	Days	Over 15	Over 30	Over 60	Over 90
Boston	3½	4	4	4	4
New York	3½	4	4	4	4
Philadelphia	3½	4	4	4	4
Cleveland	3½	4	4	4	4
Richmond	3½	4	4	4	4
Atlanta	3½	4	4	4	4
Chicago	3½	4	4	4	4
St. Louis	3½	4	4	4	4
Minneapolis	4	4	4	4	4
Kansas City	4	4	4	4	4
Dallas	3½	4	4	4	4
San Francisco	3½	4	4	4	4

Bank Clearings.—The day's clearings at New York and other cities:

	Exchanges	Balances
New York	\$518,995,358	\$38,159,515
Baltimore	6,855,036	574,983
Boston	40,150,671	10,728,639
Chicago	77,901,774	5,066,700
Philadelphia	49,065,933	3,904,465
St. Louis	19,557,589	4,152,133

Sub-Treasury.—New York banks gained from the Sub-Treasury \$266,000.

Silver.—Bars in London, 25½d; New York, 78½ cents; Mexican dollars, 61½ cents.

Gold Currents.—Gold coin to the value of \$2,369,000 was withdrawn from the local Sub-Treasury yesterday. Of this \$1,369,000 was taken for export to Spain. The destination of the remaining \$1,000,000, which is the form of double eagles, was not stated by the bankers making the withdrawal. Several millions of gold have been taken from the Sub-Treasury on this same account lately, the bank handling the operation refusing to make known the destination. It is believed that the gold is being taken for export.

Japanese bankers arranged yesterday with the Sub-Treasury for the sale of \$1,000,000 of gold to the form of double eagles. This amount of gold will be exported to Japan.

London Money Market.—London, July 25.—Money and discount rates were quiet. Money, 4 per cent. Discount rates: Short bills, 4½ per cent; three-month bills, 4½ per cent. Gold premium at Lisbon, 90.

The Dollar in Foreign Exchange

Exchange rates moved narrowly as a rule in a dull market yesterday. Russian rubles were steady. Swiss francs were strong.

Closing rates yesterday, compared with a week ago, are given in the table below. American bankers have suspended all dealings in German and Austrian exchange, so that daily quotations for either marks or kronen are no longer available.

	Yesterday	Week Ago
Sterling, demand	47½/2	47½/2
Sterling, sixty days	47½/2	47½/2
Sterling, cables	47½/2	47½/2
Sterling, ninety days	47½/2	47½/2
Quoted dollars to the pound	57½/2	57½/2
Francs, demand	57½/2	57½/2
Francs, cables	57½/2	57½/2
Francs, sixty days	57½/2	57½/2
Francs, ninety days	57½/2	57½/2
Swiss, cables	46½	46½
Swiss, demand	46½	46½
Guillemots, cables	41½	41½
Guillemots, demand	41½	41½
Rubles, cables	21½	21½
Rubles, demand	21½	21½
Copenhagen, kr., chks.	29.30	29.30
Copenhagen, kr., chks.	29.30	29.30
Pescetas, cables	22.85	22.85

As to the current exchange value of foreign money in dollars and cents, together with the intrinsic gold parity, as calculated by the United States Mint:

	Current value	Intrinsic value
Pounds, sterling	47½/2	48½/2
Francs	0.17 4	0.19 3
Guillemots	0.41 4	0.40 2
Rubles	0.21 15	0.51 2
Swiss, cables	0.13 8	0.19 3
Swiss, demand	0.29 30	0.26 8
Crowns (Denmark)	0.31 50	0.26 8
Crowns (Sweden)	0.31 50	0.26 8

The above rates express the cost of the various currencies in terms of the American dollar. You buy an English pound sterling at, say, 47½/2. The intrinsic parity is \$48½/2 per pound. Thus, you say either that you will get a pound at a premium, which is owing to the fact that in England the demand for dollars with which to settle accounts in this country is greater than the demand in this country for pounds with which to settle accounts in England.

Significant Relations

Money and Prices:

	Now	A Year Ago
Stock of money gold in the country	\$3,088,711,272	\$2,331,494,834
Loans of all national banks	\$8,751,000,000	\$7,606,000,000
Total reserve (i. e., cash in national bank vaults and on deposit with Federal Reserve banks)	1,525,000,000	1,205,000,000
Ratio of this total reserve to gross deposit liabilities of national banks	11.7%	10.8%

Bills discounted and bought by Federal Reserve Banks:

	Now	A Year Ago
Federal Reserve notes in circulation	\$359,111,000	\$114,319,000
Total gold reserves	534,228,000	154,038,000
Total gold reserves	1,380,020,000	472,708,000

Average price of 15 railroad stocks:

	Now	A Year Ago
Average price of 12 industrial stocks	108.37	108.33
Food cost of living (Annalist index number)	96.28	95.60
Production:		

Unfilled U. S. Steel orders, tons..... 11,383,287 11,886,591 9,640,458
Pig iron (daily average), tons..... 109,000 109,000 107,053
Active cotton spindles..... 33,463,946 33,459,169 32,261,694
Wheat crop, bushels..... 2,593,241,000 2,593,241,000 3,095,000,000
Corn crop, bushels..... 11,356,944 11,356,944 11,068,173

Net shortage of freight cars..... 105,127 148,627 33,361
Net surplus of freight cars..... 105,127 148,627 33,361
Gross railroad earnings..... 105,127 148,627 33,361
Bank clearings..... 105,127 148,627 33,361
Commercial failures..... 105,127 148,627 33,361

*Gold held by Reserve agents against circulation included in general fund beginning July 23, 1917. For purposes of comparison it is included in the 1916 figures.

U. S. Gov't Buys Locomotives for Use in France

Places Contract Here for Equipment Required for Moving Troops Abroad

By October 1 next American-built locomotives will be carrying American troops and supplies to the battle lines in Europe. Construction of the engines that will haul the trains over the French railroads will be begun here within the next few weeks, the United States Army authorities have closed contracts yesterday for 300 locomotives to be exported to France for this purpose. The American Locomotive Company will build 150 of the locomotives, and the remaining 150 will be built by the Baldwin Locomotive Works.

According to information obtained yesterday at the local offices of the American Locomotive Company confirming the announcement, the government order calls for the construction of consolidation type freight locomotives weighing 260,000 pounds each, with tenders attached. The engines will be of standard gauge and will be duplicates of locomotives already ordered in this country from the American Locomotive Company by the French government.

Will Rush Work

The contract will receive priority over all other business on the books of the American and Baldwin companies. Work will begin at once, and deliveries of the locomotives will begin in September. If all goes well, the companies will have completed the deliveries by the end of October. On their arrival in France the locomotives will be put on railway lines running from the American base to the various battle fronts.

Figures were recently compiled in Wall Street showing that prices for railway locomotives are so high that the only purchasers at the present time are governments. Since June 1 Russia alone has ordered five hundred 100-ton locomotives and sixty-eight narrow-gauge locomotives. The British government has ordered 100 large consolidation engines, similar to those which the United States has just contracted for. Total orders placed here for locomotives for service overseas since June 1 amount to 1,014, compared with 187 for domestic use.

Waives Shell Deliveries

It was reported in the steel trade yesterday that the French government has waived immediate deliveries on its shell steel in order that precedence might be given to rails and track supplies, of which a large tonnage is going forward for the rehabilitation of the French railway system under the direction of American engineers.

Steel Buyers Wait On Price Fixing

The iron and steel industry is marking time while waiting on Washington, according to the weekly market summaries. Buyers of pig iron and finished steel continue to hold aloof from the market, according to "The Iron Age," and their fear of what may happen to prices as a result of government action is in sharp contrast with their willingness only lately to pay any price the producer might name.

"The Iron Trade Review" says that concurrent with the more moderate view of possible Federal interference with the general market has appeared a more vigorous disposition among iron and steel producers to keep prices within bounds.

"The Iron Age" says: "The summary ending of the shipbuilding controversy means an early increase in government demand upon plate and structural mills, and the Steel Corporation's formation of a shipbuilding subsidiary points in the same direction. The 3,000,000 tons of steel vessel capacity to be built in the coming year will take about 1,000,000 tons of plates, or about 50 per cent of what the ship plate mills can produce."

There is some comment on the slowness of specifications on steel which manufacturers were officially told several weeks ago must be put through at once, one such lot being 40,000 tons of

rails for the government's use abroad. No order for these has been received. For Italy an inquiry for 10,000 tons of plates and a considerable tonnage of wire and other products has come through Washington, but no mill was found willing to take the business with the attached stipulation that the price would be fixed later by the United States government. This is the first test of the attitude of the steel makers on the proposal that the government and its allies come in on the same basis.

On the other hand, there has been buying for France through the old channels, the French mission through J. P. Morgan & Co. having already placed 25,000 tons of plates and a total of 50,000 tons for naval vessels and canal and river barges, deliveries to be made in September and October. For hull steel six cents was paid, and for boiler plates nine cents.

That progress is being made toward supplying the government with ships is indicated by word received yesterday by William Morris Imbrie & Co., which states that the first shipment of steel for vessels to be constructed by the Terry Shipbuilding Company for the United States Emergency Fleet Corporation has left Pittsburgh for Port Wentworth, Ga., where the new yards are being constructed.

In all, the twenty cargo vessels of the single deck type, costing \$10,000,000 will be built of steel except for the deck and hull planking and the cabin finish. They will be 284 feet over all, with 45 feet beam and a draft of about 20 feet when loaded.

Canada to Get \$100,000,000 Here

Bankers Surprised by Announcement of Government's Money Requirements

With the sanction of the Treasury Department at Washington a syndicate of bankers headed by J. P. Morgan & Co. has arranged to purchase \$100,000,000 of two-year notes from the Dominion of Canada upon approximately a 6 per cent basis. No collateral, it is understood, will be required of the Canadian government as security for the notes.

The placing of this loan makes the amount borrowed in this country by the Dominion government since the war started \$220,000,000, of which \$25,000,000 has already been paid off, while arrangements have been made to take care of another \$20,000,000 of notes maturing August 1.

Sir Thomas White, the Canadian Finance Minister, through whose efforts the present loan has been secured, is reported to have explained to Secretary McAdoo that the balance of trade is running so strongly against Canada in favor of this country that unless some relief could be secured the Dominion would suffer.

The notes will be offered to the public shortly, but no details were given out yesterday as to the terms on which they will be sold.

Meantime, \$15,000,000 of one-year 6 per cent notes purchased from the Chicago & Western Indiana Railroad by J. P. Morgan & Co. are being offered to the public on the basis of 93½ and interest.

One effect of the unexpected announcement made by Secretary McAdoo that the government would need \$5,000,000,000 of additional funds to meet war expenditures has been to stimulate the efforts of bankers to accomplish such short term as is in sight with as much speed as the market will permit. As one banker expressed it: "We must get in all the hay we can while the sun still shines. There is a good demand for short term notes at the moment, but with so much government financing coming along within a few weeks, the present activity can be expected to continue for only a comparatively brief period."

Bankers interviewed yesterday said that they were not only surprised, but somewhat shocked to learn that the government's war programme would necessitate financing to the extent of \$5,000,000,000 in excess of that already arranged. They agreed, however, that the government's need for money is real. The opinion was unanimously expressed that: "We are in this war with both feet and must see it through at any cost."

To raise an additional \$5,000,000,000 the government, so bankers say, will find it more expedient to resort to further issues of bonds rather than increased taxation.

"The tax method," said one banker, "must be used as far as possible, but it should be constantly kept in mind that in times such as these the first necessity is to foster industry to the utmost. It will not do to spread taxes in such a way as to discourage production by plants operated at the least profit. Our chief aim must be to keep up the volume of output."

Howard Elliott, who recently resigned as executive head of the New Haven Railroad, was chosen chairman of the executive committee of the Northern Pacific Railway Company at a meeting held here yesterday. Last month he was elected a director and a member of the executive committee. Mr. Elliott succeeds the late W. P. Clough.

It was stated yesterday that Mr. Elliott would assume the duties of his new office at once. His headquarters will be at the New York office of the company. As a member of the executive committee on national defense of the American Railway Association it is probable that Mr. Elliott will continue to spend considerable time at Washington. He is also chairman of a committee having to do with inter-company affairs of subsidiaries of the New Haven Railroad system.

Mr. Elliott's return to Northwestern Railroad is not a surprise. It has been reported that he might be put in active control of the Chicago, Milwaukee & St. Paul in the event that the head resigns. Mr. Elliott left the presidency of the